

# P Policy and O versight



Financial and Performance Audit  
Directorate

## Quality Control Review

Coopers & Lybrand L.L.P.  
Corporation for National Research Initiatives  
Fiscal Year Ended December 31, 1995

Report Number PO 97-037

June 30, 1997

Office of the Inspector General  
Department of Defense

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### **Acronyms**

CNRI	Corporation for National Research Initiatives
OMB	Office of Management and Budget



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June 30, 1997

Chairman, Non-Profit Industry Group  
Coopers & Lybrand L.L.P.  
1301 Avenue of the Americas  
New York, New York 10019-6013

**SUBJECT:** Quality Control Review of Coopers & Lybrand L.L.P.  
Corporation for National Research Initiatives  
Fiscal Year Ended December 31, 1995  
Report No. PO97-037

### Introduction

We are providing this report for your information and use. Your Washington D.C., suboffice performed a single audit for the Corporation for National Research Initiatives (CNRI), Reston, Virginia, a nonprofit research corporation. The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." The CNRI reported total Federal expenditures of \$6,641,336 for the fiscal year ended December 31, 1995, representing \$3,957,585 for the Department of Defense and \$2,683,751 for other Federal agencies.

Coopers & Lybrand L.L.P. issued its audit report May 3, 1996. The auditors questioned no costs and issued an unqualified opinion on the financial statements, Schedule of Federal Awards, and compliance with specific requirements applicable to major programs. The auditors issued positive and negative assurance statements on compliance with general requirements. Positive assurance states that, with respect to the items tested, the results of the auditors' procedures disclosed no material instances of noncompliance. Negative assurance states that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that the institution has not complied, in all material respects. The auditors also obtained an understanding of the internal controls related to the financial statements and Federal awards. The audit reports describe the auditors' scope of work in obtaining that understanding and assessing control risk. The report on Federal

awards further describes the significant internal controls and control structure, including the controls that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

### **Quality Control Review Results**

The OMB Circular A-133 audit performed by Ernst and Young L.L.P., met the applicable guidance and regulatory requirements in OMB Circular A-133, its related compliance supplement, Government Auditing Standards, Generally Accepted Auditing Standards, and the provisions of the Federal award agreements.

### **Quality Control Review Objective**

The objective of a quality control review is to assure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of OMB Circular A-133. As the Federal oversight agency for CNRI, we conducted a quality control review of the audit working papers. Our review focused on the qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

We reviewed the most recent peer review, dated September 23, 1994, and performed by Ernst and Young L.L.P., that found that Coopers & Lybrand L.L.P. met the objectives of the quality control review standards established by the American Institution of Certified Public Accountants and that the standards were being complied with during the fiscal year ended March 31, 1994. Ernst and Young L.L.P. commented on the need to update management representation letters, to tailor the letters to the engagement circumstances, and to comply with Coopers and Lybrand, L.L.P. policies regarding the review of unaudited financial information.

### **Scope and Methodology**

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide) issued by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. It is further divided into the substantive work performed during the audit of the financial statements and the specific program

compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing. Our review was conducted from May 30 through June 18, 1997.

### **Results of Prior Quality Control Reviews**

We identified minor quality control review findings and recommendations at 3 of the 10 Coopers & Lybrand L.L.P. locations we visited from January 1, 1995, through December 31, 1996. The affected offices were notified and no further action is necessary.

### **Background**

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing the responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose total annual expenditures are \$100,000 or more with respect to Federal financial assistance programs; establish uniform requirements for audits of Federal financial assistance; promote efficient and effective use of audit resources; and ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from \$100,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required under the Act; selecting programs to be audited on the basis of risk assessment rather than the amount of dollars involved; and improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements under the OMB Circular A-133, under the Single Audit Act.

The OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed \$100,000. The Circular provides that an audit made in accordance with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to carry out

its overall responsibilities. The coordinated audit approach provides for the independent public accountant, Federal auditor, and other non-Federal auditors to consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. The Circular is being revised to incorporate the changes in the Single Audit Act Amendments of 1996.

### **Discussion of Results**

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports and schedules.

**Report of Independent Accountants** The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient based on assessment of control risk to warrant the conclusion reached and whether the working papers supported the conclusion.

**Independent Accountants' Report on Supplementary Information-Schedule of Federal Awards** The auditor is required to subject the schedule to the auditing procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. Our review was included in the steps of evaluation of the audit working papers related to the "Report of Independent Accountants."

**Schedule of Federal Awards** The recipient is responsible for creating the Schedule. The auditor is required to audit the information in the Schedule and to ensure that it identifies major programs as defined by OMB Circular A-133 and total expenditures for each program. We reviewed the audit program for the appropriate procedures, reviewed a selected number of footings and cross-footings, and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

**Independent Accountants' Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards** The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and assess control risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

**Independent Accountants' Report on Compliance with Laws, Regulations, Contracts, and Grants Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

**Independent Accountants' Report on the Internal Control Structure Used in Administering Federal Awards.** The auditor is required to obtain an understanding of the internal control structure and assess control risk to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance, review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and determine whether controls are effective to ensure direct and indirect costs are calculated and billed in accordance with the requirements in the compliance supplement. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the test of controls performed and reevaluated selected internal control items.

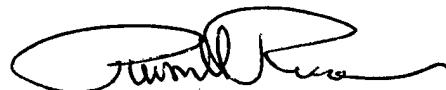
**Independent Accountants' Report on Compliance With General Requirements** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are those that could have a material effect on the recipient's financial statements including those prepared for Federal programs. The auditors' procedures were limited to those prescribed in the OMB Circular A-133 Compliance Supplement. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas are audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

**Independent Accountants' Report on Compliance with Specific Requirements Applicable to Major Programs** The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. They include types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; and special tests and provisions. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance

Supplement to make sure that all areas are audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

### Comments

Because this report contains no findings or recommendations, written comments are not required. We appreciate the courtesies extended during the review. If you have questions on this report, please contact Mr. Donald Steele, Project Manager, at (703) 604-8705. Distribution list is enclosed.



Russell A. Rau  
Assistant Inspector General  
Policy and Oversight

Enclosure

**Corporation for National Research Initiatives  
Fiscal Year Ended December 31, 1995**

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Enclosure

## **Evaluation Team Members**

This report was prepared by the Financial and Performance Audit Directorate,  
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